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Get These Decisions Right

The sheer number of financial decisions required to manage our finances can seem overwhelming. But often we spend an inordinate amount of time on small stuff — getting the bills paid on time, reconciling bank accounts, and calling to have a late charge waived. While those things need to get done, how do we judge whether we're headed on the right course? There are six basic financial decisions that can determine the course of your financial life:

1. How you earn a living. Sure, we all want to enjoy our work. But why not choose a job that will pay more than another? Your income is going to drive all your other decisions, so investigate your options:

✔ Are you sure you're being paid a competitive wage with competitive benefits? Pay attention to what is going on in your field.

✔ Do you have an outside interest or hobby that can be turned into a paying job? This could be a good way to supplement your current salary.

✔ Can you get some additional training to help secure a promotion or qualify for another job?

2. How you spend your income. The amount of money left over for saving is a direct result of your lifestyle choices, so learn to live within your means. To control spending, consider these tips:

✔ Analyze your spending for a month. In which categories do you spend more than you expected? Give serious thought to your purchasing patterns, trying to find ways to reduce spending.

✔ One of the most significant spending decisions will be your home. Purchasing a smaller home will reduce your mortgage payment as well as other costs.

✔ Prepare a budget to guide your spending. Few people enjoy

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Reviewing Legal Documents

Whether this is your first, second, or subsequent marriage, take a look at major legal documents to see if changes are needed. Even if you've been married for a while, you should review these documents:

✔ **Estate-planning documents** — If this is your first marriage, you may not even have estate-planning documents. In that case, at least prepare a will and durable power of attorney, so that state laws won't dictate how your estate is distributed. For those entering a subsequent marriage or with children, thoroughly review your estate-planning documents.

✔ **Asset ownership** — Review how assets are titled to ensure they are consistent with your estate-planning goals.

✔ **Assets with beneficiaries** — These assets would include life insurance policies, retirement plans, and individual retirement accounts (IRAs). These designations will take precedence over other documents.

✔ **Business arrangements** — Review any agreements dealing with what happens if you die or sell your interest. The agreement may need to be changed to allow your spouse to continue ownership after your death or for him/her to become involved in the business. OOO

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Get These Decisions

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setting or sticking to a budget, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals.

3. How much you save. You should be saving a minimum of 10% of your gross income. But don't just rely on that rule of thumb. Calculate how much you'll need to meet your financial goals and how much you should be saving on an annual basis.

4. How you invest. The ultimate size of your portfolio is a function of two factors — how much you save and how much you earn on those savings. Even small differences in return can significantly impact your investment portfolio. Typically, investments with potentially higher rates of return have more volatility than those with lower rates of return. Your portfolio should contain a diversified mix of investment categories based on your return expectations, risk tolerance, and time horizon for investing.

5. How you manage debt. Before you take on debt, consider the effect it will have on your long-term goals. To keep your debt in check, consider these tips:

- Mortgage debt is acceptable as long as you can easily afford the home.
- Be careful about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit for emergency use, but make sure it is only used for emergencies.
- Never purchase items on credit that decrease in value, such as clothing, vacations, food, and entertainment. If you can't pay cash, don't buy them.
- If you must incur debt, borrow wisely. Make as large a down payment as you can. Consider a shorter loan period, even though your payment will be higher. Since interest rates can vary widely, compare loan terms with several lenders. Review all your debt periodically to see if less-expensive options are available.

6. How you prepare for financial emergencies. Making arrangements to handle financial emergencies will help prevent them from adversely affecting your financial goals. Make sure to have:

- An emergency fund covering several months' worth of living expenses. Besides cash, that fund can include readily accessible investments or a line of credit.
- Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability, and personal liability.
- A power of attorney so someone can step in and take over your finances if you become incapacitated.

If you'd like help with these decisions, please call. OOO

Managing Correlations

The correlation, or relationship, between two different investments can be difficult to determine without historical data and statistical analytical tools. However, there are some basic rules of thumb that can help explain how the different forces interact and how investors can profit from them.

Most investments have a high correlation-to-market performance. In other words, when the overall market is rising, they're rising too, so there is less variability between their performance and the performance of the market as a whole.

Other investment classes have a low correlation-to-market performance. Investments in this category typically include currencies, commodities, and most hedge funds. While these typically carry more risk than investments with a high correlation, they can be good alternatives during periods of uncertainty or bear markets (when the overall market is faring poorly).

Then there are investments with a negative correlation to the market — they rise when the market falls. These are some of the most challenging investments to manage. While they can serve to diversify a portfolio and lower risk, by themselves, they carry the highest risk since the investor is betting against the market. Investments in this category include shorted indexes and stock of companies dealing with inferior goods.

While each of these investment classes carries its own risk, combined they can lower your portfolio's overall risk. When investors combine assets whose returns show low (or even negative) correlation with each other, they can minimize risk while maximizing return (because the investments are not as likely to fall at the same time). In other words, it is possible to be a prudent investor even if your portfolio includes riskier assets — as long as those riskier-yet-higher-yielding investments are balanced with others in a well-diversified portfolio.

Being diversified across different industries or international markets is not protection enough for days when almost every stock — domestic or international — gets hit. During these times, stock investors do not have anywhere to turn unless they've already hedged their stock portfolios with other asset classes.

Please call if you are interested in investigating the best asset classes for your goals. OOO

Retirement Planning Decade by Decade

Retirement planning is a lifelong process. Below are some of the key retirement-planning actions you need to take from your 20s through your 60s.

Your 20s

Start saving. The sooner you can start saving for retirement, the less you'll have to save overall. If you start saving $5,000 per year at age 25, you'll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving and you'll have about $395,000 — more than $300,000 less. Also, since you're still decades away from your retirement date, don't be afraid to take some risk with your investments. You'll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you're young: Start budgeting, avoid debt, and save for other goals like buying a house. Even if you're not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

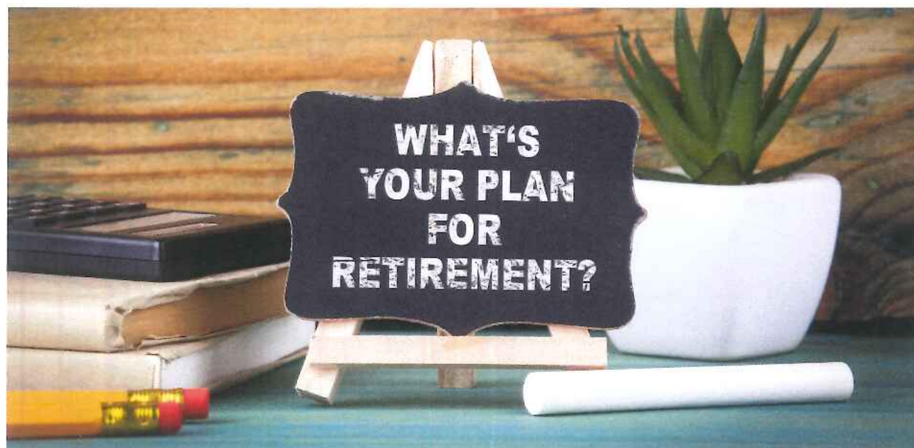
Your 30s

As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider raising retirement contributions by the amount of your annual raise, so that you don't fall behind on saving. Reassess your savings rate and consider meeting with a financial advisor to make sure you're saving as much as you can — and investing it well.

Your 40s

You're at the halfway point to retirement. If you've been saving for the past 10 or 20 years, you should have a nice nest egg by now. If you're still not serious about saving, now is the time to do so. You'll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you're an accomplished saver or just getting started, you may also consider meeting with a financial advisor to help you make sure you're saving enough to meet your goals and investing in the best way possible.

A special note: People in their late 40s and early 50s are often looking at steep college tuition bills for their children. Don't make the mistake of sacrificing your retirement goals to pay for your children's college educations. Stay focused and on track, so your children don't have to jeopardize their financial future to support you as you get older.



Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k)s and IRAs. You can save an additional $6,000 a year in your 401(k) plan and $1,000 more a year in your IRA in 2019. That's great news if you're already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what's going to happen when you retire — when exactly you're going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It's also the time to take stock of your overall financial situation. You'll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free in retirement by paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven't already, you'll want to dial down the risk in your portfolio, so you don't take a large loss on the eve of your retirement. You'll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you're falling short, it's better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you'll get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing that plan. Not sure how to get started? Please call so we can discuss this in more detail. OOO

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5 Retirement Concerns Too Often Overlooked

Baby boomers entering their "second acts" should think about these matters.

Retirement is undeniably a major life and financial transition. Even so, baby boomers can run the risk of growing nonchalant about some of the financial challenges that retirement poses, for not all are immediately obvious. In looking forward to their "second acts," boomers may overlook a few matters that a thorough retirement strategy needs to address.

✔ **RMDs.** The Internal Revenue Service directs seniors to withdraw money from qualified retirement accounts after age 70½. This class of accounts includes traditional IRAs and employer-sponsored retirement plans. These drawdowns are officially termed Required Minimum Distributions (RMDs).[1]

✔ **Taxes.** Speaking of RMDs, the income from an RMD is fully taxable and cannot be rolled over into a Roth IRA. The income is certainly a plus, but it may also send a retiree into a higher income tax bracket for the year.[1]

Retirement does not necessarily imply reduced taxes. While people may earn less in retirement than they once did, many forms of income are taxable: RMDs; investment income and dividends; most pensions; even a portion of Social Security income depending on a taxpayer's total income and filing status. Of course, once a mortgage is paid off, a retiree loses the chance to take the significant mortgage interest deduction.[2]

✔ **Health care costs.** Those who retire in reasonably good health may not be inclined to think about health care crises, but they could occur sooner rather than later — and they could be costly. As Forbes notes, five esteemed economists recently published a white paper called The Lifetime Medical Spending of Retirees; their analysis found that between age 70 and death, the average American senior pays $122,000 for medical care, much of it from personal savings. Five percent of this demographic contends with out-of-pocket medical bills exceeding $300,000. Medicines? The "donut hole" in Medicare still exists, and annually, there are retirees who pay thousands of dollars of their own money for needed drugs.[3,4]

✔ **Eldercare needs.** Those who live longer or face health complications will probably need some long-term care. According to a study from the Department of Health and Human Services, the average American who turned 65 in 2015 could end up paying $138,000 in total long-term care costs. Long-term care insurance is expensive, though, and can be difficult to obtain.[5]

One other end-of-life expense many retirees overlook: funeral and burial costs. Pre-planning to address this expense may help surviving spouses and children.

✔ **Rising consumer prices.** Since 1968, consumer inflation has averaged around 4% a year. Does that sound bearable? At a glance, maybe it does. Over time, however, 4% inflation can really do some damage to purchasing power. In 20 years, continued 4% inflation would make today's dollar worth $0.46. Retirees would be wise to invest in a way that gives them the potential to keep up with increasing consumer costs.[4]

As part of your preparation for retirement, give these matters some thought. Enjoy the here and now, but recognize the potential for these factors to impact your financial future. ○○○

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